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UNCLAS SECTION 01 OF 02 SAN JOSE 002090

SIPDIS

WHA/CEN  
EB FOR WCRAFT, BMANOGUE  
E FOR DEDWARDS  
WHA FOR WMIELE  
WHA/EPSC FOR KURS, LGUMBINER  
H FOR JHAGAN  
STATE PASS TO USTR FOR RVARGO, NMOORJANI, AMALITO

E.O. 12958: N/A

TAGS: [ETRD](#) [ECPS](#) [ECON](#) [PREL](#) [PGOV](#) [SOCI](#) [CS](#)  
SUBJECT: STATUS OF FISCAL REFORM

REF: SAN JOSE 01455

- [1](#)1. (SBU) Summary. Three years after starting discussion of the fiscal reform bill and 3 months after voting to utilize a "fast-track" review, the Legislative Assembly members remain far away from approving the bill. Disagreements about the bill between political parties and also between the President's own Social Christian Unity Party (PUSC) and the Administration may have doomed this tax revenue bill. Recently, Gerardo Gonzalez, the President of the Assembly and a PUSC deputy announced that this project is no longer the Assembly's top legislative priority. It is unclear how this will affect President Pacheco's self-imposed requirement to pass fiscal reform prior to sending the United States-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) to the Assembly. End Summary.
- [1](#)2. (SBU) Despite breathing new life into the fiscal reform bill on May 23, 2005 when the Legislative Assembly voted 38 to 19 to utilize the recently created "fast-track" review process, major divisions about details of the tax package soon developed between the President of the Assembly Gerardo Gonzalez and the Administration. (Note: The fast-track review was intended to give the Assembly the ability to limit the time period in which amendments could be proposed and discussed in order to quicken the legislative process (Reftel).) Gonzalez stated that he did not think the bill was fair to poor Costa Ricans and he insisted on changes to various parts of the bill. Finance Minister Federico Carrillo soon became the target of Gonzalez's and other PUSC deputies' complaints, and in recent weeks the public exchanges between Gonzalez and Carrillo have turned personal and ugly, culminating in Gonzalez's demand that Carrillo be fired.
- [1](#)3. (U) At first the bill's most vocal opponents were the five Libertarian Movement party (ML) deputies, who, in an attempt to kill the bill, proposed over one thousand amendments on the first and only day they could do so. Each amendment would have to be discussed and would result in more delay. As the deputies continued to review the bill, opposition arose within the President's own party. The major opposition party, the National Liberation Party (PLN), found itself in the odd role of supporting the bill and urging deputies from the President's own party to move forward on the Administration's self-proclaimed highest priority.
- [1](#)4. (SBU) Gonzalez never followed through on his promise to lengthen Assembly sessions and devote extra time for the review of the fiscal reform bill. On August 31, 2005, in a sign of how bad the relationship between Gonzalez and Carrillo had become, Gonzalez stated that he would follow through on this promise only if Carrillo were no longer the Minister of Finance. The increasing number of deputies opposing the bill also used tactics such as walking out of the Assembly to ensure there was not a quorum, thus stopping discussion of the bill. Carrillo has also been accused of a lack of loyalty to the PUSC. Note: Carrillo's mother, Joyce Zurcher, is a PLN deputy, and there have been rumors that Carrillo would stay on as Finance Minister if Oscar Arias, the PLN presidential candidate in the upcoming elections, wins.
- [1](#)5. (U) The PUSC deputies opposed to the bill state that Carrillo is cutting funds that were earmarked for social programs. Federico Vargas (PUSC) criticized Carrillo for sending to the Assembly a budget in which he moved approximately \$180 million from social programs to other government expenses such as debt payments. Carrillo has stated that his proposed budget deals with the current fiscal situation in a sound manner and, unfortunately, there is no money to pay for some social programs. He also has made some peculiar statements about the PUSC's political future. For example, Carrillo stated that

because of problems with corruption scandals involving kickbacks and two PUSC ex-presidents, there is little chance that the party will win the next election. Lilliana Salas, a PUSC deputy, said that Carrillo's "comments are ill-conceived and unfortunate at this time when we are debating fiscal reform."

16. (U) President Pacheco weighed in by saying the deputies "tell me that they want money for social programs. I say to them, with pleasure; but give me the money by passing fiscal reform."

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ASSEMBLY VOTES ON PRIORITIES  
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17. (U) On September 1, 2005, Gonzalez offered a resolution regarding the Assembly's legislative priority list. Gonzalez stated that he prioritized legislative projects in accordance with the Constitution and input from the Constitutional Court. The resolution which officially placed fiscal reform as number three on the priority list was passed by 37 of the 50 deputies present.

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COMMENT  
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18. (SBU) Even though not a top priority, discussions can still continue on this bill, especially since the projects with higher priorities are mostly at the stage of being reviewed by Assembly Commissions and have not yet made it to the floor for discussion. However, the vote to move fiscal reform to the number three position in the Assembly is a clear signal of continued waning support for the bill. The President may choose to make fiscal reform a top priority, which he can only do during the Extraordinary Sessions of the Assembly which will not begin until December. If the President does this, there is no guarantee that the deputies' lack of support on this issue will change.

17. (SBU) Officially, the President has not changed his requirement that fiscal reform be passed prior to him sending CAFTA-DR to the Assembly. It is now appearing less likely that fiscal reform will be approved during this Assembly's tenure which ends in May 2006. Although the President may change his mind, especially if the Commission of Eminent Persons reports positively on the agreement, the fact that Pacheco has not dropped the linkage between fiscal reform and CAFTA does not bode well for his sending CAFTA-DR to the Assembly any time soon.  
FRISBIE